



RURAL SAVINGS IN FAIZABAD DIVISION

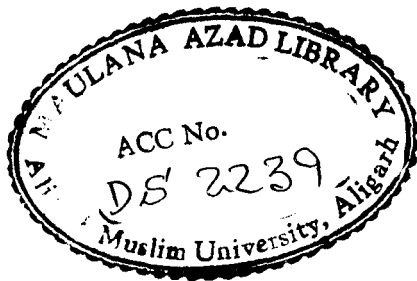
DISSERTATION
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REQUIREMENT FOR THE DEGREE OF
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IN
ECONOMICS

BY
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TO WHOM IT MAY CONCERN

This is to certify that Mr. Sanan Ahmad Siddiqui has worked for his M.Phil degree under my supervision on "Rural Savings in Faizabad Division." The M.Phil dissertation is his original work and is fit for submission for the award of M.Phil Degree in Economics.


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A_C_K_N_O_W_L_E_D_G_E_M_E_N_T

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(SANAN AHMAD SIDDIQUI)

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_C_H_A_P_T_E_R_- I

I N T R O D U C T I O N

Saving, according to classical definition, is "income minus consumption." This definition, however, will not be complete unless the terms, 'income' and consumption are clearly defined. Alternatively saving is sometimes identified with "earned surplus" a concept which is particularly relevant from the viewpoint of a businessman. As a third possibility, saving can also be defined as "increase in all assets less increase in all liabilities" apart from revaluation items and capital transfers. But, there are certain other factors, which are interrelated with savings. Accordingly, saving is influenced by occupation¹, size of family², age of the wife.³ age⁴, demographic variables⁵, attitude to savings⁶, and education of the householders.⁷ Any variation in these factors in a given year may prove to be an adequate explanation for the level of

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1. See Gold Smith, R.W. - Saving in the United States, Vol. II
 2. Duesenberry - Determinant of Savings behaviour, Savings in the modern economy.
 3. Mourse - Family Spending and Saving.
 4. Duesenberry - Income, Saving and Consumer Behaviour.
 5. Klein - "Estimates pattern of saving behaviour for sample survey data.
 6. Ibid.
 7. NCAER - Attitude Towards and Motivation for Saving, pp. 20-21 & p.105.

distribution of saving among various groups of the community. Duesenberry, for example, attempted to correlate assets with age, family composition, income history and expectation, in their bearing on saving.⁸

All these above definitions in effect amount to the same thing provided the term "income" and "consumption" etc are suitably defined.

Saving takes place in different forms, financial, non-financial etc. and for a comprehensive analysis it is essential to know about their relative magnitudes as well as the inter-relationship among them. Several studies have been conducted in different countries to examine the inter-dependence between the forms of savings. These studies reveal that most of the forms of savings show a very high degree of substitutability. In other words, an increase in a particular form of saving need not necessarily reflect a corresponding increase in the total available resources for economic development. It is the sum total of saving, irrespective of the form it takes, which is predominantly

8. Duesenberry - 'Determinants of Saving Behaviour', Savings in the Modern Economy.

responsible for making available the resources for investment, whether it be wise or not, productive or unproductive. Hence, in any attempt at increasing the level of saving or the propensity to save substitutability among different forms should be carefully assessed.

An important problem encountered while defining saving is that of the distinction between saving and investment.⁹ This problem can be examined initially at the level of a single economic unit, say, an individual or a corporation. It may be noted here that, for an individual, investment does not necessarily bear any close relation to saving. As a matter of fact, the correlation between saving and investment for a typical economic unit may be zero or negative. In the case of a primitive kind of society or for a developing economy the correlation between saving and investment may turnout to be somewhat higher than that in a developed economy. However, in India the coefficient of correlation between saving and investment is expected to be low.

9. In terms of Keynesian analysis, Macro-economic equilibrium requires a level of aggregate investment sufficient to absorb the volume of aggregate saving in the economy.

For analysing the saving investment relationships at the level of economic unit it is convenient to consider saving as consisting of two distinct components, viz, financial items and non-financial items. The non-financial part of saving relates to real investment made by the economic unit whereas the financial investment corresponds to the increase in all types of financial assets less the increase in financial liabilities.

It is well known that for a closed economy, having no trade relations with other countries, saving is equal to investment. It is here that the student of economics is confronted with the apparent conflict that while saving and investment are equal at the level of total economy, saving has no relation to investment for an individual unit. The conflict can, however, be resolved when it is observed that the different financial items of savings in an economy must cancel each other. Any increase in financial assets of an individual must either correspond to a decrease in his own liabilities or to an increase in liabilities of some other person in the economy. Hence,

the financial part of saving when aggregated over individual unit is wiped out and saving equals investment for the economy as a whole. The distinction, however lies in the fact that when an individual invests his savings in financial assets he is making his resources available to someone else for purposes of investment.

The same principle holds true in the case of an open economy as well. The domestic investment of a country including Government as well as business investment, is added to the 'net foreign investment' to obtain domestic saving. For this purpose the net foreign investment is defined as net export balance of commodities and services which corresponds to domestic investment in being financed by domestic saving. However, in case there exists an import balance the sign of net foreign investment would be negative and hence the total amount is deducted from domestic investment to arrive at domestic saving. Thus, for the economy as a whole saving equals investment which includes net foreign investment also and all types of inter-sectoral financial claims offset each other.

Some technical issues may be brought out here for a better understanding of the concept of saving, it might be noted that definition of saving which refers to the increase in assets less increase in liabilities excludes all types of revaluation items and capital transfer. This may be illustrated by certain examples. Consider the individual who possesses a constant amount of stock which is valued at Rs. 10,000 at the beginning of the period and Rs. 20,000 at the end of the period. Further, assuming that the individual has neither bought any new securities nor disposed of his existing stock during this period, the apparent increase of Rs. 10,000 in the value of stock can not be interpreted as saving because it has not financed, either directly or indirectly, any new investment during the period. This increase in value represents a capital gain or a revaluation item. Secondly, if a rich relative leaves some property, etc. to an individual this represents a capital transfer. As a result, the wealth of the specific individual has certainly gone up while that of his relative has correspondingly gone down yet, there has been no saving done by the community or the economy as a whole. It might, therefore, be observed that saving is different from the

changes in wealth. However, in most of the economies, unless there are great inflationary pressures, saving accounts for most of the increase in wealth.

MAJOR SAVER GROUPS

While the rate of domestic saving in a country is important in itself, the forms in which savings are held are equally important in determining whether the savings are undertaken by the individuals are available to the economy for investment by industrialist and businessmen for all forms of savings do not make the savings equally available for the economy for investment. Economists have found it useful to distinguish at least three sectors of the economy, namely, households, business firms or private corporate sector and public or Government sector.

The different forms of savings by individuals are quite well known. Housing construction forms the most important item of direct investment which is followed by the entire host of financial items including, liabilities. The definition of this sector, however, involves a technical

question regarding the separation of non-corporate business accounts from other personal accounts.

As regards the corporate or business sector and the government sector no such classificatory complication arises. In both cases all types of capital expenditures on fixed assets and inventories are taken to represent investment, whereas retained earnings of the corporation and the operating surplus of the government after making the necessary adjustments for capital consumption allowances and the capital gains or losses provide a measure of saving. The government sector, however, involves the problem of classifying capital expenditures versus current expenditures which has already been discussed.

It would be worth while to examine here the differential aspects of saving behaviour of the above mentioned sectors and their impact on the overall saving in the economy. This is particularly important for the formulation of basic policies as the effect of an increase in the level of taxation on the level of national income. The overall saving will increase or decrease depending upon the proportion of increased tax revenue that is spent by the government on investment goods or consumption goods.

The total saving in the economy can, in general, be expressed as the total of saving of the three sectors.

$$S = S_p + S_c + S_g$$

and

$$\frac{S}{Y} = \frac{S_p}{Y_p} \frac{Y_p}{Y} + \frac{S_c}{Y_c} \frac{Y_c}{Y} + \frac{S_g}{Y_g} \frac{Y_g}{Y}$$

Where the suffixes p, c & g correspond to personal, corporate and government sectors respectively. It can, therefore, be seen that the relative saving propensities of the different sectors and their corresponding shares in the National Income constitute the important factors in determining the overall saving propensity of the economy. In many economies the government saving - income ratio is found to be higher than the individual saving-income ratio. In such case if the government takes away money from individuals in the form of taxes etc. the overall saving is expected to increase. This need not necessarily be true in all countries. The saving-income ratio of the business sector, on the other hand, is unanimously found to be the highest and any attempt to take money away from business units would lead to lower the overall saving-income ratio.

SAVING POTENTIAL OF RURAL INDIA

The first comprehensive sample study of family saving was conducted by the Reserve Bank of India in 1950-51. The rural credit survey was the only survey that had studied rural savings adequately and on an all India basis. In a way it is said to be the first statistical attempt made in India to estimate the magnitude of savings in rural India. However, the survey finds it difficult to assess the rural savings on the basis of income and expenditure method. On account of the prevailing traditions the savings of the rural families may be measured in terms of their investment. The investment of rural families includes farm or non-farm business or it may be related to the construction and repair of residential houses. Repayments of debt, buying of shares, making of deposits, lending of money to others for capital or consumption purposes and so forth. Hence, finding it difficult to throw light on the pattern of net savings the survey presents their estimation of gross savings.

According to the survey, gross savings means "owned resources used for expenditure on direct capital formation, on acquisition of capital assets, or for the lending or for repayments of old debts."¹⁰

10. See Mutalik Desai, V.R. Social Aspects of Savings, 1967, p.167.

Apart from the rural credit survey on rural savings behaviour in India several other studies conducted on household savings behaviour in India. Many researchers have pursued the first approach, viz. testing the applicability of the three celebrated post Keynesian hypothesis of consumption function : Permanent Income hypothesis (PIH), Life-cycle Hypothesis (LCH) and Relative Income Hypothesis (RIH). The conclusion thrown up by these studies are dissimilar. In an early study Friend¹¹ concludes that a "Normal Income variant of PIH is applicable to the Indian household sector. Roy Choudhary¹² and Gupta¹³ find that there is not enough empirical support for all aspects of the PIH. Singh, Drost and Kumar¹⁴ find that a similar Keynesian consumption function may be suitable for India. Bhalla¹⁵ using panel data, however, shows that in the rural sector saving rates are not independent of the level of permanent income.

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11. Friend, Irwin, The Propensity to save in India, Economic Development issues and Policies, Vora, Bombay, 1966, p.153.
 12. Roy Choudhary, U.D., "Income Consumption and Saving in rural & urban India", Review of Income and wealth series 14, No.9, 1968, pp.32
 13. Gupta, K.L., "On Some Determinants of Rural and Urban household Saving Behaviour", Economic record, Dec.1970, pp.578-83.
 14. Singh, B., Drost, H. & Kumar, R.C., "Empirical evaluation of the Relative, Permanent and Life-cycle Hypothesis. Economic Development and Cultural change, 1978, Vol.76, pp.282-305.
 15. Bhalla, S.S., Measurement Errors and Permanent Income hypothesis, evidence from rural India, AER, June 1979, pp.295-307.

Apart from testing the applicability of LCH, RIH and PIH, new hypothesis have also been advanced and tested.

- 1) Raj, K.N.¹⁶ found that income redistribution brought about by a fall in agriculture prices during the period 1950-51 to 1957-58 increased the saving rate. He also indicated how the lag in the response of consumption to changes in income contributed to an increase in savings. The hypothesis of income redistribution in favour of upper income groups promoting savings was also tested among others by Rao.¹⁷
- ii) Friend¹⁸ made a pioneering effort in marshalling definite evidence from NCEAR data in favour of the hypothesis of a lower propensity to save in the agricultural sector. Panikar¹⁹ using family budget data, however disputes this view. On the other hand, Gupta²⁰ using time series data, upholds

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16. Raj, K.N., "The marginal rate of savings in the Indian Economy, Oxford Economic Paper, 1962.
 17. Rao, V.K.R.V., "Savings Capital formation and National Incomes", Economic & Political Weekly 1980, Vol. XV, No. 22.
 18. Friend, Irwin, Op.cit.
 19. Panikar, P.G.K., Rural Saving in India, Soniya, Bombay, 1970.
 20. Gupta, K.C., Op.cit.

the hypothesis of Friend. Subsequently surveys by the NCAER (1972, 1980) for aggregate consumption/savings and by Krishnamurty and Saibaba²¹ and Mody²² for household savings have also testified to the hypothesis of a higher saving ratio in the non-agricultural sector than in the agricultural sector.

- iii) The role of inflation has been another popular theme to work with. In his regression equations for household savings, Diwan²³ gets a negative coefficient for price level and a positive one for the price change. Gupta²⁴ gets both positive and negative coefficients for the price variable. Krishnamurty and Saibaba²⁵ find that inflation has a favourable impact on both aggregate and household savings. In contrast, Chakravarty²⁶ argues that inflation reduces the investible surpluses of

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21. Krishnamurty, K. & Saibaba, P., Determinants of saving rate in India, Indian Economic Review, 1981.Vol.XVI,No.4 pp.225-50.
 22. Mody, Ashoka, Rural Resources generation and mobilization Economic & Political Weekly, 1983, pp.789-824,Annual No.
 23. Diwan, R.K., "Effect of Price on Savings", Economic Development and Cultural Change, 1968,Vol.10, pp.430-35.
 24. Gupta, K.L. Op.cit.
 25. Krishnamurty, K. and Saibaba, P., Op.cit.
 26. Chakravarty, S., Reflection on the Growth Process in the Indian Economy, 1973.

both public and private sectors. Majumdar, Venkatchalam & Raghvachari²⁷ argue that inflation after the mid-seventies has increased the saving rate by making income distribution more unequal.

In this our approach to the problem we would like to analyse the pattern of rural savings deposits in Faizabad Division, in which financial institutions encourage rural savings such as commercial banks, regional rural banks, cooperative banks and small savings schemes through post offices, which in their turn have contributed to economic activities and spur to the expansion of agriculture and allied activities, industries, trade and commerce.

OBJECTIVES OF THE STUDY:

The general objective of the study is to evaluate levels of savings and growth of savings, mobilized by different financial institutions in rural area and its role in the economic development of Faizabad Division.

The specific objectives of the present study are:

27. Majumdar, Venkatachalam & Raghavachari, The High Saving Phase in Indian Economy, 1980, Occasional Papers, RBI, Vol.I, No.1.

- i) To evaluate the performance of various types of saving deposits by different financial institutions.
- ii) To evaluate mobilization of rural savings and its role in credit planning under lead bank schemes for economic development in Faizabad Division.
- iii) To evaluate inter-relationship among the rate of growth of saving in Faizabad Division with growth rate of India as a whole.

DATA BASE AND METHODOLOGY:

This work is primarily based on the analysis of data furnished by various official organizations as well as other agencies and individual studies. The major sources used are District Credit Plans of Faizabad Division, various issues, reports on National Savings in Faizabad Division, report of the Centre for monitoring Indian Economy (Economic Intelligence Service), and RBI's reports on trend and progress of banking in India various issues.

The data contained in the Reserve Bank of India's report on trend and progress of banking in India furnished extensive information on the size of branch expansion and mobilization of saving deposits in India and District Credit Plans are helpful for the data of Faizabad Division.

The method of research followed during the course of study was analytical in nature. The study examines the data relating to the subject and deduced certain relationship, collected data were tabulated, analysed and interpreted in consonance with the objectives of the present study. Simple mathematical tool, i.e. percentage method was followed to draw certain results.

PLAN OF THE WORK:

The first chapter deals with the concept of saving and nature and source of data.

Chapter II examines two important issues. First, the role of financial institution i.e. commercial banks and its subsidiaries after nationalization, trends of

branch expansion and deposit mobilization in India. Next is the extent of mobilization of saving deposits and branch expansion in rural areas.

Chapter III deals with the mobilization of rural savings deposits in Faizabad Division. Data are used to explain growth rate of saving deposits in rural areas of Faizabad Division.

The behaviour of National Saving Scheme and its role are examined in Chapter IV, data examined comparative growth of saving deposit in Faizabad Division with deposit growth in all over India and in Uttar Pradesh.

Chapter V explains the role of rural saving in credit planning under the lead bank schemes for the developmental programmes of the Faizabad Division falling under agriculture and allied activities, village and cottage industries and tertiary sector activities.

Finally, chapter VI sums up the main results of the study and puts forth some important suggestions.

_C_H_A_P_T_E_R_- II

ROLE OF FINANCIAL INSTITUTION TO ENCOURAGE RURAL SAVINGS

Institutional savings mean savings collected by different financial institutions. Institutional savings system in rural areas comprise of the co-operative banks, commercial banks and regional rural banks. These institutions play an important role to mobilize savings in rural areas. It is also called Multi Agency approach to rural areas.

The rural areas of the country were underbanked till recently and continue to be relatively underbanked even at present. The presence and operations of commercial banks, different types of cooperative banks and the regional rural banks in the rural areas of the country will tend to expand rural banking in the country on a scale much larger than what is possible if banking activities in the rural areas are left to be undertaken by only one type of banking institutions. The presence of different types of banking institutions with different types of deposit and lending activities will encourage the banking habit among the people in the

rural areas and will expand rural banking in the country and will promote the productive use of rural savings.

As such, if rural banking in the country is left to be developed by the cooperatives, regional rural banks and commercial banks also, it is possible to bring about an integrated development of the Indian banking system. An integrated development of the country's banking system will also promote inter-regional mobility of saving deposits of the banks and will help in bringing about a balanced regional distribution of banking facilities in the country.

An advantage of the multi-agency approach to rural banking institution in the country is the promotion of rural-urban mobility of saving. While the activities of the cooperatives and regional rural banks are largely confined to the rural areas of the country, the commercial banks operated in the rural as well as in the urban areas, so that rural-urban mobility of savings can be promoted by the commercial banks by shifting resources from their rural to urban branches or from their urban to rural branches depending upon requirements and thereby promoting the productive use of savings.

Thus the presence of commercial banks as a component of the multi agency approach to rural banking will promote rural-urban mobility of savings and will thereby promote the productive use of rural savings in the country.

Commercial banks occupy a unique position among financial institutions. This uniqueness of commercial banks arises on account of the fact that among the various financial institutions banks alone have the ability to create money in the form of credit and thereby provide the economy with additional purchasing power and liquid investable resources. Traditionally, however, a commercial bank has been considered basically as a business institution that aims at maximising its own profit while undertaking its activities, its service to society being incidental to the basic objective of maximizing its own profit. This orthodox view on the nature of a bank has undergone a change in recent years and the banking system of a country is now being considered as constituting essentially and fundamentally the financial infrastructure of the economy¹ rather than as

1. See Bhat, N.S., The banking system as the Financial infrastructure of the economy. The Indian economic Journal, Vol.34, No.1, July-Sept. 1966, pp.34-40. And banking expansion and Economic Development.

a mere agglomeration of profit seeking business institutions. A well developed commercial banking system is, therefore, one of the basic requirements of the economic development of an underdeveloped country. Consequently, the functioning of commercial banks in a developing economy like India should be motivated by 'Social Productivity'² and social objectives rather than maximising private profit. Banks, therefore, have a dynamic role to play in a developing economy.

The commercial banks form an important link in the rural banking system of India at present. Traditionally, however, the commercial banks in the country were largely urban based and were financing mainly large scale industry, whole sale trade and commerce in the urban areas and industrial sectors in the country and were concentrating on the provision of short term secured loans to such occupations and were motivated by the objective of maximising profit for their share holders.³

Since the nationalization of the fourteen major commercial banks in the country in July 1969, there has

2. See Bhat, N.S., The Social Productivity (1977), pp.205-09

3. See Bhat, N.S., Aspects of Rural Banking, New Delhi, 1988, pp.24-25.

been a considerable change and improvement in the geographical and sectoral coverage by the commercial banks in the country with a view to bringing about a balanced regional, local and sectoral distribution of banking facilities in the country and with a view to developing the financial infrastructure of its economy.⁴

Consequently, the banking expansion and branch licensing policy in the country since 1969 has been such as to bring about a more balanced regional distribution of banking facilities by directing the commercial banks to open more and more branches in backward and rural areas and in the hitherto unbanked areas.⁵

LOCAL DISTRIBUTION OF BANKING FACILITIES:

The presence of local imbalances in the distribution of banking facilities was another feature of the Indian commercial banking system at the end of June 1969. These local imbalances manifested themselves in the form of an unbalanced distribution of banking facilities as between

4. See Bhat, N.S., Ibid., p. 26.

5. See Reserve Bank of India Report on Trend & Progress of banking in India, 1985-86, pp.85-88.

the urban and rural areas within a region or State while the urban areas and industrial and business centres in a region had developed banking facilities, the rural areas in a region were underbanked (see data in table 2.1).

Banking facilities tended to be concentrated in the bigger cities, industrial centres and port towns to the neglect of the banking needs of the rural areas in the country.

Consequently, after nationalization the rural-urban disparity in the availability of banking facilities in the country has narrowed down considerably as is evident from the data contained in the Table No.2.1. These data show that while the rural branches formed only 22.4 percent of the total number of 8262 commercial bank offices functioning in the country at the end of June 1969, at the end of June 1991, rural branches formed as much as 58.5 percent of the total number of 60,190 branches of commercial banks functioning in the country. This was made possible because of the fact that the number of rural branches of commercial banks increased during the period at a much faster rate than the increase in the number of branches functioning in the

TABLE - 2.1

Rural-Urban Distribution of Commercial Bank Offices in India

(as at end of)

Centre/Pop Group	June 1969		June 1980		June 1985		June 1991		Increase over June 1969	
	No.	% to Total	No.	% to Total	No.	% to Total	No.	% to Total	No.	% to Total
Rural	1832	22.4	15101	46.6	30177	58.7	35190	58.5	33358	1820.8
Semi-Urban	3322	40.1	8078	24.9	9747	19.0	11023	18.3	7701	231.8
Urban	1447	17.5	4856	15.0	6217	12.1	7769	12.9	6322	436.9
Metropolitan/ Port Town	1661	20.0	4384	13.5	5244	10.2	6208	10.3	4547	273.7
TOTAL	8262	100.0	32419	100.0	51385	100.0	60190	100.00	51928	628.5

SOURCE: Reserve Bank of India - Report on trend and progress of banking in India 1971, 1980-81, 1985-86 and 1990-91.

NOTE: - Rural Centres: Places with population upto 10,000.

- Semi-Urban Centres: Places with population over 10,000 upto 1,00,000.

- Urban Centres: Places with population over 1,00,000 and upto 10,00,000.

- Metropolitan Centres: Places with population over 10,00,000.

urban areas. While the number of branches of commercial banks functioning in Metropolitan and port towns increased by 273.7 percent, those functioning in semi-urban areas increased by 231.8 percent during the period June 1969 to June 1991 as against 628.5 percent increase in the total number of branches of commercial banks functioning in the country as a whole, the number of branches functioning in rural areas increased by as much as 1820.8 percent. This is a clear pointer to the fact that main thrust of the banking expansion policy adopted in the country since 1969 has been on the expansion of banking facilities in the rural areas and in the hitherto unbanked areas with a view to provide the country's economy with a well developed financed infrastructure from rural areas.

DEPOSIT GROWTH:

The nationalization has enabled the banks to tap the deposits of the rural masses to a great extent. The deposits have grown very fast during the period June 1969 to March 1990-91. The concentration of the banks in the rural areas has been successful in cultivating the saving habit among the rural population with the penetration of

the banks into rural areas, the share of the saving of the rural household flowing into the banks has increased, it is presented in the Table No.2.2 below:

TABLE - 2.2
Growth of Deposits

(Rs. in Crores)

Population Group/Centre	June 1969 %	Dec. 1986 %	March 1990-91 %
Rural	145 (3.1)	14375 (14.0)	31408 (16.3)
Semi-Urban	1024 (22.0)	21404 (20.9)	- -
Urban	1209 (25.9)	26660 (26.0)	- -
Metropolitan Port Town	2287 (49.0)	40186 (39.2)	- -
Total	4665 (100.0)	102625 (100.0)	192542

SOURCE: Reserve Bank of India - Report on trend and Progress of Banking in India, 1986-87 & 1990-91.

NOTE:

- 1) Rural Centres: Places with population upto 10,000.
- 2) Semi-Urban: Places with population over 10,000 and 1,00,000.
- 3) Urban Centres: Places with population over 1,00,000 and upto 10,00,000.
- 4) Metropolitan Centres: Places with population over 10,00,000.
- 5) Figures in brackets indicates the percentage share.

The total deposits of the scheduled commercial banks were Rs. 4,665 crores as at the end of June 1969. The rural deposits at the end of June 1969 were only Rs. 145 crores which accounted for hardly 3.1 percent of the total deposits and that of semi-urban branches were Rs. 1,024 crores, accounting for 22 percent of the total deposits. But nationalization has changed the picture dramatically. The data shows that by December 1986 rural deposits has gone upto Rs. 14,375 crores and contributed 14 percent of the total scheduled commercial bank deposits. If we include semi-urban centres also in rural areas, the deposits has increased from 25 percent to 35 percent and further total deposit increased to Rs.192,542 crores at the end of March, 1990-91. The share of rural sector gone upto 16.3 per cent.

While the metropolitan branches which had a share of 49 percent in June, 1969, witnessed a decline to 39 percent in December 1986. Consequently, the rural share has increased and gone up after the nationalization of commercial banks and branch expansion in rural areas in 1969.

A historical review of rural financial institution in India goes as far back when the only financial institution working in rural areas were cooperative credit societies

and cooperative banks. Cooperative banks form an important link in the present rural banking system of India. Hence, an analysis of the significance and recent trends in cooperative banking should form an important part of study of rural financial institution in India.

The origin of the cooperative credit institutions in the country can be traced to the various malpractices and exploiting nature of the village money lenders and the necessity of providing the agriculturists in the country with an alternative, cheap and institutional source of credit. Though started in 1904 with the passing of the cooperative credit societies act with the objective of promoting the habit of thrift and savings among its members. The extent to which this objective is attained depends on the amount of deposits mobilized by the societies. As the All India Rural Credit Review Committee observed, an important indicator of success and efficiency of any credit agency, which is also a banking institution, is the extent to which it is able to mobilize the savings of the community in the forms of deposits. This is particularly significant for the cooperative credit structure because of its emphasis on thrift.

Cooperative credit institution consists of three tier structure to meet short and medium term credit needs of agriculturists. While the primary agricultural cooperative credit societies operating at village level form the base of this three-tier structure. The central cooperative banks should cover an area not exceeding a district and serve 200 to 250 societies. It is also called District Cooperative banks, and its top or apex is formed by State cooperative banks functioning at the state level.⁶

PROGRESS OF CO-OPERATIVE BANKING
AND DEPOSIT GROWTH:

The cooperative banks have been regarded as the best instruments for the socio-economic improvement of the people of small means. They are expected to do a lot for the reconstruction by tapping rural resources and by dispensing adequate credit. Thus DCC Banks are required to play a crucial role in the mobilization of deposits, given in the Table No.2.3.

6. Reserve Bank of India - Report of the All India Rural Credit Review Committee (1969), p.154.

TABLE - 2.3
Progress of Co-operative Banking
And Deposit Growth

(Amount in Rs. crores)

Year	Total No. DCC Banks	Deposits	Average Deposit (Per bank)
1984	N.A.	3,765	N.A.
1988	1722	7,390	20

SOURCE: The Co-Operator, May 1, 1991, p.531.

The total deposits of DCC Banks in the country increased from Rs. 3,765 crores in 1984 to Rs. 7,390 crores in 1988 with total cooperative banks numbering 1,722 in 1988. Average deposits per DCC Banks in 1988 at all India level was only about Rs.20 crores. Against this, average deposits per DCC banks in Maharashtra were Rs. 68 crores followed by Rs. 66 crores in Gujarat, Rs. 42 crores in Tamil Nadu and Rs. 29 crores in Kerala. But in Karnataka, it was only about Rs. 18 crores.

Out of total deposits, deposits mobilized from individuals are very less in DCC Banks. About 50 percent of total deposits belong to institutions. As per the legal obligation in the state cooperative societies Act, all cooperatives have to deposit their surplus funds in their respective financial banks even though they may pay lesser rate of interest than commercial banker.⁷

The Banking Commission (1972) made the recommendation that a chain of rural banks be established in addition to the regular branches of commercial banks already operating or to be opened in rural areas. It was of the opinion that in a country like India where diversities abound, any single type of financial needs of people in the rural areas would not be an appropriate method of dealing with the problem of rural credit and deposit.

COMMISSION'S RECOMMENDATIONS:

The recommendations of the Banking Commission can be summarized as follows:

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7. Reserve Bank of India - Report on trend and Progress of Banking in India, 1988-89.

- 1) A rural bank has to act as a primary banking institution which should serve a population ranging from 5000 to 200000.
- ii) It is expected to mobilize the savings lying idle in the village by accepting deposits in different forms, and act as an agent of development by providing short terms and medium term credit.
- iii) It shall provide other banking services to the local people by supplying them inputs and marketing assistance.

Though started in 1975, the Regional Rural Banks have now become an integral part of the rural banking system of the country and have been playing a commendable role in providing credit and banking services to the rural areas by opening a large net-work of branches.

Acting upon the recommendations, the Government of India promulgated an ordinance on 6th September, 1975, and there under the first five regional rural banks, were

set up on the 2nd October, 1975. The ordinance was later replaced by the 'Regional Rural Bank Act, 1976.'⁸

OBJECTIVES OF REGIONAL RURAL BANKS:

The following objectives for the establishing of RRBs:

- i) To develop rural economy.
- ii) To provide credit for agriculture and allied activities, particularly to small and marginal farmers.
- iii) To encourage village industries and cottage industries.
- iv) To reduce dependence of rural people on money lenders.
- v) To fill gap created by moratorium on borrowing from money lenders.
- vi) To help the poor financially for their consumption needs.
- vii) To reach those far-flung areas, particularly backward and tribal areas, and to make these areas economically better by opening branches in the area.

8. Reserve Bank of India - Report on Trend and Progress of banking in India, 1984-85, p.68.

While the rural banks basically will perform all the banking function, it will be desirable to enable them to perform certain non-banking functions. There are following functions of RRB.⁹

- i) Mobilize local savings by means of the various types of deposits from the rural areas, i.e. current deposits, saving bank deposits etc.
- ii) To provide financial assistance to the priority sector.
- iii) To extend necessary banking facilities to remote areas.
- iv) To act as a vital instrument in the implementation of governed sponsored schemes for rural development, namely, the IRDP, Twenty Point Economic Programme, District Credit Plans and NABARD Schemes etc.
- v) To adopt villages in the areas of operation and bring about overall economic development of such village.

9. Government of India - Report of the Banking Commission (1972), p.577.

PROGRESS OF REGIONAL RURAL BANKS (RRBs):

October 2, 1975 shall always be reckoned with as an important land-mark in the annals of banking history of India, when first five Regional Rural Banks were set up with an objective to extend banking facilities in the far-flung rural areas inhabited by the down-trodden people comprising among others, of scheduled caste and scheduled tribes. Keeping in line with the commitment of the Government to uplift the rural population, the bank came into existence to contribute their share in the achievement of the desired goals by providing financial assistance aimed at generating income and there-by raising the people above the poverty line.

The growth of RRBs in the country is shown in the Table No.2.4. It is evident from the table that there were only six RRBs with 17 branches in the country in 1975, which increased to 51 RRBs in 1978 with 562 branches, became sluggish during this period. Nevertheless, the tempo of growth gained momentum from 1980 onwards, which went upto 196 RRBs with 13,353 branches at the end of 1987 and further increased to 14,511 branches at the end of 1990

The RRBs made a remarkable progress of nearly 40 percent per annum from the period 1980 onwards.

TABLE - 2.4

Growth of Regional Rural Banks and Deposits
Mobilization in India (as at end of Dec.)

Year	Total No. of RRBs	Total No. Branches	District covered	Deposit Growth Amount in Crores Rs.
1975	6	17	12	0.2
1978	51	1760	101	74.14
1982	124	6191	214	502.26
1988	196	13787	363*	2942.28
1990	196	14511	380*	4267.52

SOURCE: Statistics on Regional Rural Banks (NABARD).

* - Consequent upon reorganization of Districts.

Even in respect of the coverage of districts, RRBs recorded a tremendous growth by covering 380 districts of the country as in December 1990. The most important achievement of RRBs was the coverage of the remote and economically backward areas of the country. Out of 115

districts with sizeable tribal concentration in the country, RRBs covered 92 districts, i.e. 80 percent of the total.

DEPOSIT GROWTH:

The progress made by RRBs in the sphere of deposit mobilization over the year, by providing banking facilities to unbanked and under-banked rural areas, gives a good account of themselves by mobilizing deposits of funds which were locked idly with the rural population. The progress of deposit growth is shown in the table.

From a comparative meagre sum of Rs. 0.2 crores in December 1975 to Rs. 74.14 crores in December 1978 and Rs.2942.28 crores in December 1988 is in no way a mean achievement. The amount further increased to Rs.4267.52 crores as in December 1990, giving an average of Rs. 1032 per deposit account as against Rs. 443 per deposit account in 1978, which goes on to prove that RRBs have mobilized deposits from small savers and therefore they have come true to their claim of being small man's bank.

From the foregoing discussion it can be concluded that regional rural banks have played a vital role in the

upliftment of rural economy. Being solely responsible for rural finance and deposit mobilization, they have brought about a tremendous change in the rural economy which other banks could not do during the long span of rural banking. Hence, it is expected that development of regional rural Bank would bring about a dynamic change in the rural economy of India in the coming years.

An analysis of financial institutions in Faizabad Division shows the progress in terms of number made by commercial banks, cooperative banks and Regional Rural Banks in expanding banking facilities in the rural areas and deposit mobilization in the Faizabad Division during the period of December 1985 and March 1991. It is shown in the Table No.2.5 given below:

TABLE - 2.5
Progress of Financial Institutions in
Faizabad Division

(As at end of)

Name of Financial	Dec. 1985		March 1991		Increase over Dec. '85	
	No.	% to Total	No.	% to Total	No.	% to Total
Commercial Banks	237	33.8	334	38.4	97	40.9
Distt.Coop. Banks	109	15.5	126	14.5	17	15.6
Regional Rural Banks	356	50.7	410	47.1	54	15.2
TOTAL	702	100.0	870	100.0	168	

SOURCE: Lead Banks Report on District Credit Plan, Annual Action Plan, in Faizabad Division, Various issues.

TABLE - 2.6

Deposit Growth of Financial Institution in
Faizabad Division

(Amount in Rs.Crores)						
Name of Financial Institutions	Dec. 1985		March 1991		Increased over Dec. '85	
	Deposit	% to Total	Deposit	% to Total	Deposit	% to Total
Commercial Bank	373.09	80.2	927.10	79.5	554.01	148.5
Distt. Coop. Bank	30.24	6.5	62.93	5.4	32.69	108.1
Regional Rural Banks	61.66	13.3	176.61	15.1	114.95	186.4
Total	464.99	100.0	1166.64	100.0	701.65	

SOURCE: Lead Banks Report on District Credit Plan, Annual Action Plan in Faizabad Division, Various issues.

The Table 2.5 and 2.6 illustrates the progress made by different financial institutions in the sphere of branch expansion and deposit growth since Dec. 1985. Total number of branches of commercial banks functioning in the division was 237 forming 33.8 percent of the total number of 702 banks functioning in the division, contributing 80.2 percent of total (464.99 crores) deposit with Rs. 373.09 crores at the end of December 1985. As against 38.4 percent of

commercial banks numbering 334 out of 870 in toto functioning with deposit of Rs. 927.1 crores formed 79.5 percent of the total deposit (1166.64 crores) in March 1991, which increased 148.5 percent over 1985.

While the District Cooperative banks which had a share of 15.5 percent of branches numbering 109 and contributing only 6.5 percent of total deposit with 30.24 crores in 1985 shot up to 126 banks sharing 14.5 percent of total banks functioning in the division with the deposit of 62.93 crores out of total deposit of 1166.64 crores i.e 5.4 percent of total deposit at the end of March, 1991, which increased to 108.1 percent over 1985.

The progress of Regional Rural Banks functioning in the Faizabad Division had gone up since 1985, data shows that the RRBs branches increased from 356 in number with 50.7 percent in Dec. 1985 to 410 in number in March 1991 showing an increase of 15.2 percent. The deposit increased from Rs. 61.66 crores in December 1985 with 13.3 percent of total deposit to 15.1 percent with Rs. 176.61 crores as at the end of March 1991, with 186.4 percent growth over 1985.

Thus, from the foregoing analysis of the multi-agency approach to rural banking shows in respect of deposit mobilization, that three types of institutions should mobilize as much deposit as possible, there should not be any restriction on the commercial banks in respect of their deposit mobilization activities and they should be free to collect deposit from all sections of the rural community. This is because the commercial banks are highly suitable for deposit mobilization and for the productive use of such deposits mobilized by shifting their resources from regions with surplus deposit to regions with large investment opportunities because of their country-wide net-work of branches. Care should, however, be taken to ensure that the cooperatives and Regional Rural banks competing with them in respect of deposit mobilization.

_C_H_A_P_T_E_R_- III
MOBILIZATION OF RURAL SAVINGS IN
FAIZABAD DIVISION

The term 'mobilization of savings' is generally understood to mean tapping "hidden" or "idle" funds. Such a concept of mobilization of saving is rather very narrow because it calls forth policy measures to attract or mop up idle funds. But mobilization of savings involves a total effort on the part of a community to release productive resources for investment by deliberately cutting down its level of consumption. The purpose of mobilization of savings is, therefore, to enlarge production and thus it must be ensured that adverse effects on present production are avoided.¹

Savings are an important source for meeting the financial resources of plans, for economic development. This is because the rate of investment cannot be increased without increasing the rate of saving, savings are mobilized from the following sources:

- (i) Public savings which include budgetary savings and savings from public enterprises.

1. Rudra Dutta and K.P.M. Sundharam - Indian Economy, New Delhi, 1989, pp.108-09.

(ii) Private corporate savings.

(iii) Household savings which include Reserve Bank of India, scheduled banks, Government financial institutions, non-government financial institutions and credit cooperative societies.

RATE OF SAVINGS IN INDIA:

There are the various motives for saving by individuals in a country. The aggregate volume of savings undertaken individually by the people in a country provides it with the resources required for investment and capital formation. Obviously, the individual savings by millions of individuals in the country have to be gathered and made collectively available for investment by the industrialists and businessmen through the intermediation by banks and other financial intermediaries functioning in the country.

A developing economy requires a high rate of domestic savings for two important reasons:

Firstly, since domestic savings constitute the real and ultimate source of capital formation, a high rate of

capital formation and economic development in the country require a high rate of domestic saving.

Secondly, a developing economy will not be able to increase the supply of consumer goods at the required rate during the initial stages of its economic development because of the necessity to divert resources from the production of consumer goods to the fields of investment and capital formation. Therefore, unless consumption is restricted, scarcities of consumer goods, inflationary pressures and the associated problems are bound to arise in the initial stages of economic development and these problems retard the pace of development of the economy. A high rate of domestic saving avoids the emergence of such problems by restricting consumption expenditure in the economy. An analysis of the rate of domestic savings in India reveals that the rate of gross domestic saving in India has decreased steadily from 22.7 percent.² of the gross domestic product in 1980-81 to 19.6 percent in 1984-85 and has increased thereafter to

2. The rate of gross domestic saving as a percentage of the gross domestic product at current market prices, in the country was only 16.1 percent in 1970-71.

See Department of Economic and Statistics, Tata Services Limited, Statistical outline of India, 1986-87, p.270.

24.1 percent in 1989-90.(see data below in table 3.1). The rate of domestic saving in India is equal or even higher than the rates of domestic saving in some of the developed countries in the world. According to the world development report, for instance, the rate of gross domestic saving in India was 21 percent in 1985 while it was only 16 percent in the United States and 18 percent in the United Kingdom.³

TABLE - 3.1

Domestic Saving in India at Current Prices

(Amount in Rs. Crores)

Year	GDP	G.D. Saving	Rate of Saving (as percentage)
1980-81	136013	30880	22.7
1981-82	159760	36089	22.6
1982-83	178132	36634	20.6
1983-84	207589	41488	20.0
1984-85	231387	45450	19.6
1985-86	261920	57898	22.1
1986-87	291974	60093	20.6
1987-88	332616	74386	22.4
1988-89	394992	94432	23.9
1989-90	442769	106501	24.1

SOURCE: Central Statistics Organization, Dept. of Statistics, Ministry of Planning, Govt. of India, National Accounts Statistics 1984, 1986 and 1990-91 issues.

3. The World Bank, World Development Report, 1987, Table 5, pp. 210-11.

It is enlightening to analyse the sectoral shares in gross domestic saving in India and their implications to banking in the country. For this purpose the economy is divided into three sectors, namely, the household sector, the private corporate sector (including cooperative institutions) and public sector (including public sector undertakings) in accordance with the classification undertaken by the Central Statistical Organization (CSO) in the country. The data pertaining to the sectoral shares in the gross domestic saving in the country are presented in the Table No.3.2 below.

TABLE - 3.2

Sectoral Shares in Gross Domestic Saving in India

(Amount in Rs. Crores)

Sector	1980-81		1984-85		1989-90	
	Amount	% to Total	Amount	% to Total	Amount	% to Total
Household Sector	21848	75.9	31641	75.0	78913	82.3
Private Corporate Sector	2284	7.9	3991	9.5	9379	9.8
Public Sector	4654	16.2	6526	15.5	7625	7.9
Total	28786	100.0	42158	100.0	95917	100.0

SOURCE: Central Statistical Organization, Dept. of Statistics, Ministry of Planning, Govt. of India, 1990-91.

As from these data, it can be found that the share of the household sector in the gross domestic saving in the country was 82.3 percent in 1989-90 as against 75.9 percent in 1981-82 and 75.0 percent in 1984-85. These estimates show that the share of the household sector has not been stable. Even in recent years the fluctuations have been considerable, but the household sector has accounted for approximately three-fourth of the gross domestic saving.

The share of private corporate sector was only 9.8 percent in 1989-90 as against 7.9 percent in 1981-82 and 9.5 percent in 1984-85. But the share of the public sector was 7.9 percent in 1989-90 16.2 percent . in 1981-82, it has declined in comparison to other private corporate sector in recent year.

These data reveal that major share of the gross domestic saving in India comes from household sector and it has increased in both urban and rural areas but the growth of saving in the two areas has not been at a uniform rate. This dominance of household saving in the gross domestic saving in India is an indicator of under developed nature

of the Indian economy, since it is generally found that it is the industrial or business community that does most of the savings in the form of business profits in a developed economy, while the major share of the gross domestic saving in an underdeveloped economy comes from the household sector.

Since bulk of the saving programmes are being initiated, it is customary to correlate mobilization of savings with an effort to find resources for the investment programmes of the public sector in the plans. Here again, it may be pointed out that in a mixed economy, investment programmes are undertaken both by the public and the private sector and therefore, mobilization of savings has to be understood keeping in mind the needs of both the sectors. In a capital-scarce country, it is quite possible that efforts at resource mobilization may, to some extent, result in a diversion of savings from the private to public sector, or vice versa. In case savings are directed from non-priority to priority sector of investment, resource mobilization results in desired economic development. But in case resources are diverted to non-priority uses, distortions in the process of development occur. But the process of mobilization of

savings aims at augmenting the total as well as relative share of savings in the lines of productive economic activity which help to accelerate the process of development.

It would, therefore, be necessary to mobilize savings from the rural areas and for this purpose suitable policies have to be developed.

In rural India, government nationalized the commercial banks and introduced different types of schemes to mobilize rural savings in rural areas, i.e. small savings schemes, insurance schemes for crops and other agricultural products.

MOBILIZATION OF SAVINGS THROUGH
BANK DEPOSITS IN RURAL INDIA:

In respect of deposit mobilization, bank deposits are an important source of savings. There has been significant increase in bank deposits. But in the house-hold sector, the share of rural sector has remained low. Thus it is not the dearth of savings in the rural areas but the failure of deposit mobilization efforts that can be held

responsible for the performance in the saving effort of the rural areas.

The nationalization of 14 major commercial banks and 6 more commercial banks in April 1980, has changed the situation. The number of rural branches of commercial banks increased from 1,832 in June 1969 to 7,385 in December 1975 and further 32,498 by March 1988. The business of rural branches both with regard to mobilization of deposits and extension of advances has been impressive as compared to the banking system as a whole. Between June 1969 and Dec. 1988, the deposits of rural branches of bank increased from Rs.145 crores to Rs. 20,907 crores as the increase of total deposits from all branches (rural, urban and metropolitan) from Rs. 4,665 crores to Rs. 1,41,823 crores. In this way the share of rural deposits in total bank deposits improved from 3.1 percent in June 1969 to 14.7 percent in 1988 - a remarkable achievement indeed.⁴

Another landmark of Indian banking is, regional rural banks which were established to mobilize local savings by

4. Rudra Dutta and K.M.P. Sundharam, Op.cit., pp.109-10.

means of various types of deposits in rural areas. The number of branches of regional rural banks increased from 3,279 in December 1980 to 14,511 in December 1990 and deposit mobilized by the RRBs in Rs. 160 crores in June 1980 to 5,560 crores in March 1992, which is remarkable achievement by the RRBs.⁵

MOBILIZATION OF RURAL SAVINGS IN
FAIZABAD DIVISION THROUGH BANK DEPOSITS:

Economic growth depends upon the mobilization of savings from rural as well as urban areas. But in Faizabad division more than 90 percent population are living in rural areas and depend upon agriculture and its allied activities and more than 60 percent are marginal farmers.

The industrial structure of the division is dominated by traditional small scale industries like leather work, black-smithy, woodwork, oil extraction, power-looms, Khandsari units etc., which are largely labour intensive and village oriented. The small industries using modern techniques of

5. Centre for Monitoring Indian Economy, Basic Statistics, relating to Indian Economy, Vol.I, All India, Aug.1989.

production and manufacturing modern products are few in number. Large scale units in the division are telephone Industry of Mankapur (Gonda) and Fertilizer Industries of Jagdishpur (Sultanpur) and Faizabad and few sugar mills.

Thus we can say that the source of income in the division almost depends upon agriculture and its allied activities.

Even if financial institutions mobilize savings from the rural areas are commercial banks, regional rural banks and cooperative banks have created a nucleus in the process of economic development of the division by introducing different types of savings schemes such as savings deposits, fixed deposits etc. and maximum branch expansion in the rural areas. The trend of branch expansion of commercial banks and its subsidiaries are given in the Table No.3.3.

TABLE - 3.3

Growth of Commercial Banks and its Subsidiaries Banks
in the Faizabad Division

Year	No. of Branches	Growth in Figures
1981	373	-
1983	526	153
1986	696	170
1991	814	118

SOURCE: Information collected from the lead bank office, Faizabad Division.

The number of bank branches increased from 373 in December 1981, to 526 in December 1983 and 696 in December 1986, and upto end of March 1991, it went to 814 rural branches in Faizabad division. In this connection it is interesting to note that the rural branches of commercial banks and its subsidiaries have risen during 1981-1991 from 373 to 814. The growth of rural branch expansion has increased more than 100 percent during the decade.⁶

The basic objective of the branch expansion programme was to accelerate the pace of opening bank offices in the unbanked/under-banked areas, and to reduce imbalances and mobilize deposits from the rural areas, and providing institutional credit particularly to the weaker section of the rural community.

In sphere of deposit mobilization, banks play a prominent role in the mobilization of rural savings from the rural areas.

In commercial banks and its subsidiaries mobilize savings in Faizabad division by introducing different types

6. As report by District Statistics Offices in Faizabad Division.

of savings schemes. The trend of deposits of the bank for the period 1982-1991, can be seen from the table No. 3.4. The table illustrates the progress made by commercial banks and its subsidiaries.

TABLE - 3.4
Deposit Mobilized by Commercial Banks and its
subsidiaries in Rural Areas of Faizabad Division
During the period 1982-1991

(Rs. in Crores)

Year At the end of December	Amount of Deposits Rs. in Crores	Total Growth in deposit in Rupees	Percent of Growth
1982	232.24	-	-
1983	264.28	32.04	13.8
1984	332.23	67.95	25.7
1985	407.07	74.84	22.5
1986	547.93	140.86	34.6
1987	707.06	159.13	29.0
1989*	799.44	92.38	13.0
1990*	972.93	173.49	21.7
1991*	1149.80	176.87	18.2

SOURCE: Information collected from Lead Banks report on District Credit, Annual Action Plan in Faizabad Division, various issues.

* The years show upto end of March.

IN SPHERE OF DEPOSIT MOBILIZATION OVER THE DECADE:

The total deposits of the banks in rural areas of the division were Rs. 232.24 crores in December 1982 which rose to Rs. 264.28 crores at the end of the year 1983, i.e. the deposit grew by an amount of Rs. 32.04 crores (13.8%) just in one year. It is obviously due to the increase in number of branches of the banks. The deposits of the bank in 1984 went up to Rs. 332.23 crores showing a growth rate of 25.7 percent, and nearly doubled growth rate over previous year. It is because of opening of nearly hundred new branches of commercial banks and RRBs within gap of two years. In 1985 deposits of the bank went up to Rs. 407.07 crores with growth rate of 22.5 percent.

In 1986, the number of branches of the commercial banks and its subsidiaries went upto a number of 696 with the result that deposits of the bank rose up to Rs. 547.93 crores, which shows net increase of Rs. 140.86 crores, 34.6 percent growth rate. At the end of December 1987 deposit grew with growth rate of 29.0 percent which was highest during the decade because number of branches increased.

But after March 1989, the deposits in Faizabad division increased in money terms but growth rate was low, just 13.0 percent, which shows lowest growth rate during the decade. It is because of drought, agriculture production had gone down. But at the end of March 1990 deposits increased from Rs. 972.03 crores to Rs. 2249.80 crores in March 1991. Showing a net increase of Rs. 176.87 with 18.2 percent growth rate it is because of opening of new branches in the division.⁷

If we classify the deposits of the banks in Rural Faizabad Division it can be said that the current accounts share was in the range of 10 to 15 percent, the saving accounts share was in the range of 30-40 percent and the remaining shares belong to term deposits. Thus, it is clear that the term deposit played very important role in the total deposits of the bank.

The average deposits of commercial banks and its subsidiaries in Faizabad division per bank was about Rs.0.5

7. As report from lead bank offices of Faizabad Division - Various issues.

crores, against per bank deposit in U.P. which is nearly Rs. 0.7 crores in 1982, which was low. It was increased in 1990 but comparatively low. It was Rs. 1.25 crores in Faizabad Division as against Rs. 1.7 crores per bank in U.P.⁸

Thus, we can say that the average deposit per bank in Faizabad Division was low, it is required that the bank should therefore make special efforts for tapping deposits from rural areas and these resources may be made available for the agriculture and rural development.

In order to accelerate the pace of deposit mobilization, commercial banks and its subsidiaries should take various steps like -

- i) More branches and extension counters should be opened.
- ii) Modernization and restructuring of old branches with efficient customer service.
- iii) Organize deposit mobilization campaign, constant effort to secure the deposits from the local bodies, educational institutions and among rural rural people.

8. As report from the Centre for Monitoring Indian Economy Basic Statistics relating to the Indian Economy - Various issues.

- iv) Attractive rate of interest on different types of deposits, to mobilize deposits more and more in rural areas.
-

_C_H_A_P_T_E_R_- IV

ROLE OF NATIONAL SAVINGS SCHEME TO ENCOURAGE RURAL SAVINGS

Rapid economic development of an underdeveloped country requires a high rate of domestic savings. The post office savings bank plays a crucial role in mobilizing and generating domestic savings for capital formation. The Govt. of India started post office savings banks scheme in 1882 by passing an Act, because there was no any financial institutions to provide facilities for savings in rural as well as in urban areas.

The main objective of the post office saving bank was to encourage savings through various saving schemes for the rapid economic development of the country. Consequently, the functioning of post office saving bank, therefore, has a dynamic role to play in a presently developing economy of India.

ROLE OF POST OFFICE SAVINGS BANK TO ENCOURAGE RURAL SAVINGS:

The post office savings bank is now the biggest bank serving at grass-root level in the country and can truly

be called people's bank. It has a net work of 1,45,000 branches throughout India out of which 1,25,000 in rural sector meeting the simple banking needs of the rural population.

It has a long history dating back to 1882. In the beginning the objective of the post office saving bank was to encourage the habit of thrift among the ~~common~~ man but this concept has undergone a ~~radical~~ change during the last two decades from the restricted objective of providing a facility to the public to deposit their small savings, the post office savings bank has become a medium of mobilizing large resources running into hundreds of the crores every year for plan projects. As a result of the change in the role, the expectations of the performance of the post office savings bank have gone up very much both in the minds of those concerned with small savings and the general public. At the close of year 1987-88, the post office saving bank was handling 904 lakhs¹ accounts and had a total outstanding balance of Rs. 28,366 crores in all of its savings scheme. It has also been established that approximately 30 percent

1. As report from the Department of Post & Telegraph, Government of India, 1989, pp.20-22.

of the total collections on small savings in the country are drawn from the rural population. It shows how well and deeply the post office savings bank has penetrated the farthest and isolated villages of India. The post office savings bank is now a major instrument available to the government for mopping up savings both in rural and urban areas.

Savings is the life line for the development of the country. Since Independence for planned economic development, the government required vast resources mobilized through various sources. Post office savings bank is one such important source. Since the first five year plan the role of the post office savings bank has undergone a radical change.

The expansion of the savings bank business since independence is many folds. Comparative figures of the no. of Accounts and outstanding balances on different decades at the end of the financial year are as follows:

TABLE - 4.1

Comparative Figures of the Number of Accounts
and Outstanding Balances on Different Decades
at the End of Financial year

Year	No. of Accounts in All Schemes (in Lakhs)	Outstanding Balances in All Schemes (Rs. in Crores)
1950	30	167
1960	86	802
1970	248	1911
1980	472	6856
1988	775*	28366*

SOURCE: Accountant General, Post & Telegraph,
Government of India.

* - As on 31.3.1987

In order to promote and popularize small savings schemes the Government of India had set up different types of small savings agencies. The main aim of these agencies is to raise the resources for financing development and other economic measures of the country. These agencies are as follow.

(1) NATIONAL SAVING ORGANIZATION (NSO):

National saving organization was set-up in June 1948 under the control of Ministry of Finance, Government of India. The main function of the organization are to promote small savings movements in all possible ways in rural as well as in urban areas to arrange publicity of the various savings schemes and mopping up as much savings as possible through authorized agents or other voluntary workers.²

The role of above organization is to secure as much money as possible by mopping up in rural and urban areas. Savings has an important place in the mobilization of resources for development expenditure because the investors would not only get back their money but also some interest and they would therefore, prefer to lend money in this way instead of paying it as outright tax. Further, in a developing economy in which there will be always surplus money available with some sectors to the extent that the savings are tapped the money are available for circulation is taken away and to that extent pressure on prices and

2. See: from Department of Post & Telegraph, Ibid., p.24

inflationary trends is reduced. Therefore, savings have got important role to play in sphere of economy.

(ii) MAHILA PRADHAN KSHETRIYA BACHAT YOJANA:

This scheme was started in April 1972. It is also called "Area Savings Leaders Authorised Agency Scheme." The main objective of the scheme is to encourage domestic savings among house-wives in family budgeting.

The Agency will be confined to canvassing for and receiving investment in the post office time deposits accounts and post office recurring deposits accounts etc.

(iii) PAY ROLL SAVINGS SCHEME:

The pay roll savings scheme was introduced with an objective of promoting voluntary savings of the employees and wage earners in Government offices through this scheme.

(iv) THE UNIT SCHEME:

The Unit Trust of India is a financial institution established in July 1964. Its main objective is to provide

a medium of investment through post office by which people can invest their money in units (shares). Its main business is:

- (1) Selling units to the public and purchasing units from the holders;
- (2) Investing in, acquiring, holding or disposing of securities and exercising and enforcing all powers and right incidental thereof.

(v) EXTRA DEPARTMENTAL BRANCHES:

The extra departmental branches were set up by the post office to provide facilities in rural areas because in India more than 70 percent population are living in rural areas.

In order to promote collections of savings of the people in the rural areas the following incentives oriented schemes have been provided to extra departmental sub and branch post masters.

A commission at the rate of 2 percent is given on the increase in net collections of savings bank accounts,

5 year time deposits accounts and for the sale of 7 years, 6 years National Savings Certificate and 1 percent on 2/3 years time deposits accounts operated at their offices.

These saving scheme agencies are working to encourage small savings in rural as well as urban areas. These agencies have different kinds of schemes which encourage small savings i.e. savings bank accounts, cumulative time deposits schemes, Recurring deposit scheme, Time deposit scheme, National Saving scheme, Monthly Income scheme, and Savings certificates which includes Kisan Vikas Patra, Indira Vikas Patra, Social Certificates etc. which are as follows:

(a) SAVING BANK ACCOUNTS:

Saving bank accounts scheme was started with the objective of encouraging savings among the rural people, by providing facilities to the public to deposit their small savings.

(b) POST OFFICE RECURRING DEPOSIT SCHEME:

Post office recurring deposit schemes are operated through the post office savings banks and governed by post office saving bank rules.

There is only one type of account, namely a 5 year account and the period of the account shall count from the first deposits.

(c) POST OFFICE TIME DEPOSIT SCHEMES:

This scheme is operated and governed by post office saving bank rules. There are three types of accounts namely, 1 year, 2 year, 3 year and another 5 years account, which may be opened in three types, i.e. single account, joint account and provident fund account.

(d) POST OFFICE FIXED DEPOSITS SCHEME:

The post office Fixed Deposit scheme is governed by the post office savings bank rule and there are two types of account, which can be opened in any post office which provided saving bank facilities.

(e) NATIONAL SAVINGS SCHEME:

This scheme started from 1 April, 1987 with the objective to issue different kind of savings certificates for rural as well as for urban areas and is governed by the post office savings bank rules.

The National savings certificates are as follows:

i) Social Security Certificates:

Social Security Certificates started in 1982 which can be had by any person in his name by submitting an application form at a post office.

ii) Indira Vikas Patra:

Indira Vikas Patra came into force from 19th November, 1986. A certificate can be purchased on payment being made and shall be issued immediately. A certificate of any denomination may be encashed at any time after the expiry of a period of five years from the date of issue by presenting it before the post office.

iii) Kisan Vikas Patra:

Kisan Vikas Patra came into force on the 1st April 1988. The maturity period of the patra is five and a half years commencing on the date of the certificates. The amount inclusive of interest payable on encashment of a certificate at any time after the expiry of its maturity $5\frac{1}{2}$ years period shall be doubled.

There are the savings organizations and agencies functioning in order to promote and popularize small savings schemes among the rural people, its main aim is to raise the resources for financing development of the country. Total outstanding balances as on 31st March in different kind of accounts are as follows.

TABLE - 4.2

The Outstanding Balances of Different kinds of Accounts (As on 31st March)

(Fig.in Rs.Crores)

Kind of Accounts	1983	1984	1985	1986	1987	1988
Savings Bank	2326	2478	2705	2872	3012	3403
C.T.D.	459	495	531	537	570	560
Recurring Deposit	540	669	859	1053	1263	1545
Time Deposits	4801	5300	6062	7114	6457	5745
National Savings Scheme	-	-	-	-	-	95
Monthly Income	-	-	-	-	-	228
Savings Certificates	2976	4571	7050	9861	13431	16790
	11102	13512	17207	21457	24733	28366

SOURCE: Report from Accountant General, Post & Telegraph, Government of India - Report on Trend & Progress of Small Savings in India, 1989.

The table 4.2 shows generally an increasing trend from 1983 to 1988 in a different forms of savings. It could be interpreted from the table 4.2 that saving bank accounts increased from Rs. 2326 crores Constituting nearly 20 percent of the total amount in 1983 increased upto Rs. 3403 crores forming 12 percent of total amount in 1988. The C.T.D. (Cumulative Time Deposit) account shows an increasing trend from 1983 to 1988 which amounts to Rs. 459 crores comprising of 4 percent of total deposit in 1983 increased upto 560 crore constituting 2 percent of total deposit in 1988. The Recurring deposit amounting to Rs. 540 crores and 48 percent of total deposit in 1983 rose upto Rs. 1545 crores which is 5.6 percent of total amount in 1988. Time deposit amounting Rs. 4801 crores rose upto Rs. 5745 crores from 1983 to 1988. Saving certificate amounting to Rs. 2976 crores shot upto Rs. 16790 crores from 1983 to 1988. While it was 25 percent of total deposit to 59 percent of the total deposit in 1988 was saved.

An analysis of different kinds of small savings schemes can be observed from above figures that a large part of the savings in the country is held in savings

certificates, more than a half of the total savings in the year 1988 as it was earlier contributing just 25 per-cent of it in the year 1983.³

In comparison of savings certificate growth rate the other accounts have made a nominal change in their deposit.

PROGRESS OF NATIONAL SAVING SCHEMES TO
DEPOSIT MOBILIZATION IN FAIZABAD DIVISION:

It is enlightening to analyse the performance of national saving schemes to mobilize rural savings in Faizabad Division. For this purpose savings are made attractive by different types of schemes, namely, savings bank accounts, Cumulative Time deposits schemes, Recurring deposit schemes, Time deposit scheme, National saving scheme and Saving Certificates etc. in accordance with the classification undertaken by the national savings schemes. But, the data pertaining to the overall savings made through National Saving Schemes in Faizabad Division and its growth

3. See, Report from Accountant General, Post & Telegraph Government of India , 1989, p.485.

rate during the year 1983-84 to 1990-91 are presented in the Table No.4.3. From these data it can be found that the deposits of the national saving scheme increased from Rs. 14.7 crores in 1983-84 to Rs. 21.28 crores in 1984-85

TABLE - 4.3

Deposit (Savings) Mobilization by National
Saving Schemes in Faizabad Division

(Amount in Rs.Crores)

Year	Net Deposit (Savings)	Annually Increase or decrease	Annual Growth rate as % age
1983-84	14.70	-	-
1984-85	21.28	6.58	44.76
1985-86	31.34	10.06	47.27
1986-87	35.00	3.66	11.68
1987-88	49.21	14.21	40.60
1988-89	66.36	17.15	34.86
1989-90	79.56	13.20	19.89
1990-91	83.59	4.03	5.06

SOURCE: 1) Directorate of National Savings Schemes,
Vikas Deep, Lucknow, U.P.
2) District Officer, National Savings Schemes,
in Faizabad Division.

i.e. net increase of Rs. 6.58 crores (44.76 percent) in one year. The deposit in the year 1985-86 was Rs. 31.34 crores showing net increase of Rs. 10.06 crores over previous year with growth rate of 47.27 percent. It is obviously due to the fact that Government introduced different types of schemes every year which encouraged public to save more.

In 1988, Government started Kisan Vikas Patra Scheme to mobilize savings in rural areas. Consequently the deposits increased from Rs. 49.21 crores in 1987-88 to Rs. 66.36 crores in the year 1988-89 showing a net increase of Rs. 17.15 crores (34.60 percent) which was highest in comparison to other years. But in 1990-91 deposit collected just Rs. 83.59 crores, it was low with annual growth of 5.06 percent and net increase of Rs. 4.03 crores showed unsatisfactory result.

These data reveal that total deposits collected by national savings schemes increased from Rs. 14.70 crores in 1983-84 to Rs. 83.59 crores in 1990-91 - around 6 times increase. While aggregate deposit collected by schemes

in U.P. as a whole Rs. 284.38 crores in 1983-84 to Rs.1568.04 crores in 1990-91 - around 5.5 times increase as given in the Table No.4.4 which is higher.

TABLE - 4.4
Deposit (Savings) Mobilization by National
Saving Schemes in U.P.

(Amount in Rs.Crores)

Year	Net Deposit (Savings)	Annually increase or decrease	Annual Growth rate as % age
1981-82	184.39	-	-
1982-83	219.98	35.59	19.30
1983-84	284.38	64.40	29.28
1984-85	411.83	127.45	44.82
1985-86	521.24	109.41	26.57
1986-87	539.61	18.37	3.52
1987-88	696.89	155.28	29.15
1988-89	946.85	249.96	35.87
1989-90	1166.54	219.69	23.20
1990-91	1568.04	401.50	34.42

SOURCE: Directorate of National Saving Scheme
(Statistical Cell), Vikas Deep, Lucknow,
U.P.

If we classify the deposits of the schemes it can be said that major contribution in the savings through saving certificates varies between 40 to 50 percent, share of time deposit scheme between 25 to 35 percent and small savings accounts varies between 15 to 20 percent.

_C_H_A_P_T_E_R_- V

ROLE OF RURAL SAVINGS IN CREDIT PLANNING UNDER THE LEAD BANK SCHEME IN FAIZABAD DIVISION

A District Credit planning can be defined as the allocation of the overall volume of bank - resources available in the country among the different sectors of the economy considering their needs, absorptive capacities, and their relative importance in the context of the economy's overall development and in promoting price stability and distributive justice.¹

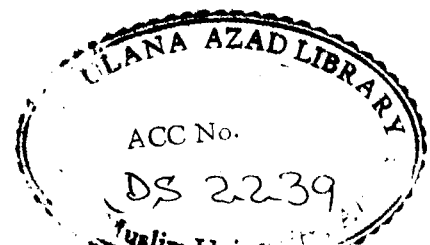
A district credit plan is, therefore, an action plan, consisting of bankable schemes in the agriculture, industries and services sectors of the district. It is expected to estimate the demand for credit from the existing economic activities and from the activities which are likely to develop in the future as a result of the strategy of planning and schemes of development adopted in the district development plan. The responsibility of preparing the district credit plan is entrusted to the bank designated as a lead bank for

1. See Bhatt, N.S., Need for Credit Planning in India, Southern Economist, Vol.21, No.6, July 15, 1982, p.13.

the concerned district. The lead bank has to evolve technically feasible and economically viable schemes that can be taken up for implementation by different financial institutions functioning in the district within the existing or marginally strengthened infrastructure.

The objective of the district credit plans formulated under the lead bank schemes, is to guide the credit institution in the district to deploy their credit in such a manner that they will have the maximum impact on the development of the district and at the same time benefit an increasing proportion of the weaker section of the society. The credit plan thus mainly seeks to indicate the scope for the development of various types of economic activities, which can be financed by credit institution, in a given time, horizon, with an emphasis on increasing the opportunities for the weaker sections in participating in the process of development.

It is, therefore, an action plan, consisting of bankable schemes in agriculture and allied activities, industries and services sectors of the economy, it is expected to estimate the demand for credit from the



existing economic activities and from the activities which are likely to develop in the future as a result of the strategy of planning and schemes of development adopted in the development plan.

Since the volume of credit that a bank can create depends on the volume of deposits mobilized by it, targets for credit deployment should logically be preceded by bank-wise and branch-wise targets for deposit mobilization from new depositors by spreading the banking habit among a larger number of people. Importance should be attached to the volume of deposits mobilized by a bank from new depositors and not merely to the volume of deposits mobilized, since it is always possible that the new deposits mobilized by one bank are drawn from another through a process of shifting of deposits to that bank from another. What is significant, therefore, is the volume of deposits mobilized from individuals who did not have the banking habit so far. Hence, a comprehensive deposit-planning or a plan for deposit mobilization should form an integral part of credit planning and credit planning will be successful only when it is linked with such a deposit-planning.

From the above discussion it can be pointed out that credit planning involves the laying down of different types of targets for credit deployment at different levels i.e. sector-wise targets, which specify the macro ratios according to which aggregate resources at the disposal of the banking system are to be disbursed among the different sectors of the economy, such as industry, agriculture, trade and commerce, services etc. depending upon their relative needs for credit and their relative credit absorptive capacities and the aggregate resources available at the disposal of the banking system.

Credit planning should aim at attaining this objective by laying down sector wise targets for credit deployment at the macro-level. It should, however, be remembered that the basic objective of credit planning is not just to lay down targets for credit deployment but to ensure the optimum productive use of bank credit in the country. Hence, while laying down sector-wise targets for credit deployment, with a view to bringing about a balanced distribution of credit among different sectors of the economy, the relative credit absorptive capacities of the

different sectors and their relative needs for credit should be carefully considered so that the credit allotted to certain sectors does not remain unused while the other sectors of the economy are denied of their genuine needs for credit and hence an optimum use of credit, from the social point of view, is not attained in the economy.

So one of the major achievements of bank nationalization was to bring about a significant structural transformation in the composition of credit by a conscious diversion of bank advances on an increasing scale to the weaker sections of the community. These weaker sections are termed as "Priority sector", which include agriculture, small and cottage industries, road transport, retail trade, profession and self-employment, small business, housing and consumption. Financing of priority sectors of the economy has been one of the strategies of the commercial banks in their development role in India. A major part of the banks' resources (about 70 percent) are granted for priority sectors in each annual action plan. So priority sectors lending is the major development activities of the lead banks schemes.

In the context of priority sectors lending, what has been the role of the commercial banks, in general, and the cooperation banks in particular, in Faizabad is very important.

ROLE OF RURAL SAVINGS IN CREDIT PLANNING FOR
DEVELOPMENT PROGRAMMES IN FAIZABAD DIVISION:

Agriculture is the main activity in the division, nearly 85 percent of the work force in the division is engaged in agriculture and allied activities.³ So, agriculture has been given the prime importance in the development of the division. The financial need for agriculture and allied activities is estimated and financed to the weaker section of the society, such as small farmers / marginal farmers / landless labourers and Scheduled Caste and Scheduled Tribe from the savings deposits created by lead bank and its subsidiaries in the division.

Accordingly loans are provided for agricultural development and also for allied activities for installing

3. See: District Credit Plan, Annual Action Plans of Faizabad Division, various issues.

tubewells, borewells, electric pump-sets, diesel pump-sets, crop loans, farm-equipments loan, plough animals, land development, and for purchasing tractors, power-tillers, threshers, dairy, poultry, fisheries, goatry, sheep-rearing and bee-keeping and other related activities allied to agriculture. For this purpose government financed certain amount of loans to the weaker section.

The progress made by lead banks and its subsidiaries in financing agriculture and allied activities can be seen from the table - if we see Table 5.1 we find that total credit outlay in Faizabad division, for the priority sectors in the year 1982 was Rs. 44.3 crores, out of which Rs. 30.9 crores i.e. 69.8 percent provided for agriculture and allied activities for the development of rural areas. Out of which nearly 40.0 percent for the purpose of crop loan and other for term-loans and other allied activities.

For the year 1983, the lead banks and other subsidiaries provided finance to the agriculture and

allied activities of 37.9 crores (74.0 percent) from total outlay of Rs. 51.2 crores out of total outlay nearly 15.0 crores are provided for crop loaning and other for medium term loan and allied activities to agriculture, the small cottage industries got just Rs. 6.5 crores (12.7 percent) as against Rs. 6.8 crores to the tertiary sector.

In the year 1984, the total credit outlay in the division for priority sectors was Rs. 63.7 crores, out of which Rs. 45.6 crores were provided for the agriculture and activities allied to agriculture, which is 71.6 percent to total outlay out of which Rs. 9.2 crores for Bahraich district, Rs. 9.8 crores for Faizabad, Rs. 9.1 crores for Gonda, Rs. 8.6 crores for Barabanki and Rs. 8.9 crores for Sultanpur district and loans provided for the purpose of crop loan, i.e. irrigation, wells, tubewells, tractors, power tillers, carts including trailers and other activities allied to agriculture such as dairy, poultry, fisheries, bee-keeping, bio-gas plants, sericulture and other related to the agriculture etc.

Cottage and rural small scale units financed just Rs. 1.6 crores, Rs. 1.9 crores, Rs. 1.5 crores, Rs. 1.2 crores and Rs. 1.3 crores for the Bahraich, Faizabad, Gonda, Barabanki and Sultanpur districts respectively. The tertiary sector credit outlay increased Rs. 10.6 crores as against Rs. 6.8 crores in 1983, i.e. 16.6 percent of the total outlay.

The total credit outlay for the year 1985 was Rs. 66.5 crores, out of which agriculture and allied activities worked out to be Rs. 44.5 crores, i.e. 69.0 percent of the total outlay. The credit for small and rural cottage industries was Rs. 8.1 crores and tertiary sectors credit Rs. 12.5 crores.

The loan provided to the agriculture and allied activities has decreased in terms of percentage in 1986. The sum of Rs. 47.6 crores provided for the agriculture and allied activities out of total Rs. 73.2 crores in the division, Rs. 10.0 crores for the rural and cottage industries including small scale industries just 13.7 percent of the

total outlay, which was constant but share of tertiary sector increased rapidly from 13.5 percent in 1982 to 21.3 percent in 1986.

In the year 1987, the total outlay for the credit purpose was Rs. 83.8 crores out of which Rs. 51.3 crores provided to the agriculture and allied activities, i.e. 61.2 percent of the total outlay, Rs. 11.6 crores for the rural cottage and small scale industries and for the tertiary sector Rs. 20.9 crores, i.e. 25.0 percent which continuously increased.

In the year 1988-89, the bank deposit increases and the use of deposit goes to the priority sector in the division out of total outlay. Rs. 101.5 crores credit provided to the agriculture and allied activities was Rs. 64.4 crores, i.e. (63.5 percent), Rs. 17.8 crores to the cottage and small scale industries and Rs. 19.3 crores for the services sector.

But in the year 1989-90 the credit increased in the agriculture and allied activities was Rs. 111.6 crores

TABLE - 5.1

Sector-wise Credit of all Banks in Faizabad Division for
the period - 1982 to 1990-91

S.No.	Name of Sector	1982	1983	1984	1985
1	2	3	4	5	6
1.	Agriculture and Allied Activities	30.9 (69.8)	37.9 (74.0)	45.6 (71.6)	45.9 (69.0)
2.	Small & Cottage Industries	7.4 (16.7)	6.5 (12.7)	7.5 (11.8)	8.1 (12.2)
3.	Tertiary Sector	6.0 (13.5)	6.8 (13.3)	10.6 (16.6)	12.5 (18.8)
TOTAL		44.3	51.2	63.7	66.5

Contd..

1986	1987	1988-89*	1989-90*	1990-91*
7	8	9	10	11
47.6 (65.0)	51.3 (61.2)	64.4 (63.5)	111.6 (70.4)	138.1 (72.4)
10.0 (13.7)	11.6 (13.8)	17.8 (17.5)	22.6 (14.3)	19.6 (10.3)
15.6 (21.3)	20.9 (25.0)	19.3 (19.0)	24.3 (15.3)	32.9 (17.3)
73.0	83.8	101.5	158.5	190.6

SOURCE: Report from Lead Bank Office, District Credit Plans, Barabanki, Gonda, Bahraich, Faizabad and Sultanpur, various issues.

NOTE: Figures in brackets show percentage share in the total credit outlay of the Division.

* - Figures are at the end of March.

out of total outlay of Rs. 158.5 crores, i.e. 70.4 percent and the share of the rural and small scale industries was Rs. 22.6 crores and tertiary sector was Rs. 24.3 crores i.e. 15.5 percent.

But in the year 1990-91 the total outlay increased to Rs. 190.6 crores as against Rs. 44.3 crores in 1982, which increased more than 4 times. The financing credit to the agriculture and allied activities was Rs. 138.1 crores (72.4 percent) as against Rs. 30.9 crores in 1982, which increased more than 4 times in money terms.

Thus, from above discussion it can be concluded that the role of the rural savings in Faizabad division for credit planning has been played a vital role by providing loans to the agriculture and allied activities, i.e. crops loans, irrigation, i.e. wells, tubewells, electric or oil engines, pump-sets, tractors, power tillers, power threshers, plough, animals, agro-services, dairy, poultry, fisheries, sericulture, bee-keeping, goatry, sheep-rearing, biogas plants and other related to the agriculture and allied activities.

PROGRESS OF RURAL AND COTTAGE
INDUSTRIES IN FAIZABAD DIVISION:

Traditional industries, located in rural and semi-urban areas, involve low levels of investment in machinery and provide invariable part-time employment, about 85 percent of the population of Faizabad division engaged in agriculture and living in rural areas. Therefore the bank pay special attention towards the rural and cottage industries, except a few large scale industries, division is predominantly covered by rural and cottage industries like weaving, metal works, silk textiles, khadi, village oil ghani, rice mills, leather works, bamboo works, gur making, hand-made paper, village pottery, power looms, cotton processing units, engineering units, khandsari units etc. These activities are the traditional activities for some of the families in rural areas. To encourage these rural artisans a sizeable targets were fixed in the last ten years to cover all type of beneficiaries.

Till the end of 1988-89 the number of small scale and cottage industries were 8,713 and the registered

under factories Act, 138 units of small scale industries of which 28 units in Faizabad division, 44 in Sultanpur and 20 each in Gonda and Barabanki and 26 in Bahraich. The Barabanki is well equipped for the hand-loom industries. Faizabad dominated with food products processing units and Gonda has the food processing units, i.e. rice mills, sugar mills and oil mills etc. Sultanpur has maximum units of hand-made paper and gur making and Bahraich district dominated by wood-work and Khadi units.⁵

We have discussed above about the credit provided by the banks from the rural deposits for all round development of small scale and cottage industries in the rural areas and the progress of the credit supply can be seen from the table.

PROGRESS OF TERTIARY SECTOR OR
SERVICES SECTOR IN FAIZABAD DIVISION:

As far as tertiary or services sector is concerned the banks provided loans to this sector for the purpose of transport operators, i.e. cycle Rickshaw, Auto Rickshaw/

5. See District Credit Plan, Annual Action Plans in Faizabad Division, various issues i.e. 1987-88 and 1988-89.

Taxi, hand carts, horse kherkhra, retail traders, small business, self employment, tailoring units, fair price shops, doctors, engineers, and others for the development of the tertiary sector.

USE & EFFECT OF LOANS PROVIDED BY THE
LEAD BANKS AND ITS SUBSIDIARIES IN
FAIZABAD DIVISION:

We have discussed above that the performance of lead banks and its subsidiaries in providing finance to the priority sectors has been quite satisfactory. The aim of bank is to develop the rural economy by providing credit facilities for the purpose of development of agriculture and allied activities, village and cottage industries and other productive activities such as transport operators, small business etc. in rural areas by utilizing the locally available economy, credit and other facilities, particularly to the small and marginal farmers, landless labourers, artisans and small entrepreneurs in the division to inculcate banking habits in the rural folk.

Hence from the above analysis it can be concluded that the bank credit, under the lead bank schemes, plays

an important role in the development of the economy in the Faizabad division. Major share of the bank credit goes to small and marginal farmers and weaker sections of the society so they are improving their standards of living. But it can not be denied that a large part of it goes uneffective.

C H A P T E R - VI

SUMMARY AND CONCLUSIONS

The present study has attempted to analyse the role of public sector banks and post office savings banks in mobilizing savings in general and rural savings in particular taking up the case study of Faizabad Division. The important findings of the study have been summed up in the following paragraphs.

Savings has been defined taking into consideration the view-points of different economists. From the classical point of view savings has been defined as "Income minus consumption" which is incomplete without defining clearly the term "Income" and "consumption" alternatively saving is sometimes identified as earned surplus which is the relevant concept from the view-point of a business man. As a third possibility savings has been defined in terms of assets and liabilities that is saving is an "increase in all assets less increase in all liabilities." Apart from these there are certain other factors which influence savings.

Mobilization of saving means tapping hidden or idle funds from the community to release productive resources for investment and an important source for economic development savings are mobilized from different sources such as public savings, private corporate savings and household savings. The major share of gross domestic savings comes from household sector.

The rate of domestic saving in India which was 22.7 per cent of the gross domestic product in 1980-81 increased to 24.1 per cent in 1989-90. It is equal or even higher than the rate of domestic saving in some developed countries. According to world development report, for instance, the rate of gross domestic saving in India was 21 per cent in 1985 while it was only 16 per cent in the United States and 18 per cent in the United Kingdom.

However, financial institution mobilized savings in rural areas mainly constitutes commercial banks, cooperative banks - and regional rural banks. These institutions play an important role to mobilise rural savings which is known as multi-agency approach to rural banking in the country in the promotion of rural-urban mobility of saving.

The presence of different types of banking institution with different types of deposits and lending activities encourage the banking habit among the rural people and expand rural banking in the country and promote the productive use of rural saving. Thus an integrated development of the country's banking system promotes inter-regional mobility of saving deposits of the banks and help in bringing about a balanced regional distribution of banking facilities in the country.

The nationalization of banks has enabled our banking institutions to tap the deposit of the rural masses to a greater extent and deposit increases manifold during the period 1969 to 1991. The total deposits of scheduled commercial banks in India was Rs. 4,665 crores at the end of June 1969, the rural deposits which was only Rs. 145 crores (3.1 per cent) of the total deposits in 1969 went up to Rs. 31,408 crores in 1991 which contributed 16.3 per cent of the total deposit of the scheduled commercial banks in India.

The cooperative banks have been regarded as the best instrument for the socio-economic improvement of the people

of small means and they are expected to do a lot for the reconstruction by tapping rural resources and by dispensing adequate credit. Thus cooperative banks are required to play a crucial role in the mobilization of rural deposits. The total deposits of district cooperative banks in the country increased from Rs. 3,765 crores in 1984 to Rs.7, 390 crores in 1988.

Regional rural banks have now become an integral part of the rural banking system of the country and have been playing a commendable role in providing saving deposit and credit facilities to the rural areas by opening a large number of branches. The total deposits of regional rural banks was Rs. 0.2 crores with 17 branches in 1975, which increased to Rs. 4267 . 62 crores with 14511 branches at the end of December 1990 covering 380 districts, which is a remarkable achievement by the banks.

Apart from these financial institutions, the post office saving bank is now the biggest bank serving at gross-root level in the country. It has a network of 1,45,000 branches throughout the country out of which 1,25,000 in

rural sector meeting the simple banking need of the rural population. At the end of March 1988 the post office saving bank was handling 904 lakhs accounts and had a total outstanding balance of Rs. 28,366 crores in all of its savings schemes and approximately 30 per cent of the total deposits on small savings in the country drawn from the rural areas.

Small savings mobilized savings through different types of saving agencies, these agencies have different kinds of saving schemes i.e., saving bank accounts, time deposits, recurring deposits and saving certificates etc. including Kisan Vikas Patra, specially introduced to encourage rural masses to save more.

Rural Saving in Faizabad Division

The main sources of mobilization of savings deposits in rural areas of Faizabad division are commercial banks, regional rural banks, district cooperative banks and post office saving banks. The rural savings deposits depends upon agricultural income because more than 90 per cent population are living in rural areas. Industrial structure of the division is fully based on raw materials from agri-

cultural products and they are largely labour intensive and village oriented cottage industries.

In sphere of branch expansion and mobilization of rural saving deposits from rural areas the commercial banks and its subsidiaries play an important role during the decade of 1982 to 1990-91. The number of bank branches in rural areas increased from 373 in number in December 1981 to 814 in number at the end of March 1991 an increase of more than 100 per cent during the decade. The deposit of the bank in rural branches of the division was Rs. 232.24 crores at the end of December 1982, which went up to Rs.407.07 crores in December 1985. But at the end of March 1991 saving deposits increased to Rs. 1149.8 crores, showing a net increase of Rs. 917.5 crores during the 1982-1991. The share in rural saving deposits, commercial banks collected nearly 80 per cent of total deposits, while regional rural banks and district cooperative banks share was nearly 14.5 per cent and 5.5 per cent respectively of the total rural saving deposits.

The progress of deposit mobilization in Faizabad division by introducing different types of schemes during

the 1983-84 to 1986-87 the saving deposits increased from Rs. 14.7 crores in 1983-84 to Rs. 35.0 crores in 1986-87, but the government introduced Kisan Vikas Patra in 1988 which aims to mobilize savings from rural people. Consequently, the deposit increased from Rs. 35.0 crores to Rs. 66.36 crores at the end of March 1989 which further increased up to Rs. 83.5 crores at the end of March 1990-91.

These data reveal that total deposits collected by commercial banks and its subsidiaries increased from Rs. 232.24 crores in December 1982 to Rs. 1149.8 crores at end of March 1991. The post office saving deposits increased from Rs. 14.7 crores to Rs. 83.59 crores during the period of 1983-84 to 1990-91; while aggregate deposit collected by post office saving schemes in U.P. increased from Rs. 284.38 crores in 1983-84 to Rs. 1568.04 crores in 1990-91 and it was made possible only because of opening of new branches and increase in agricultural production in Faizabad division.

Besides deposit mobilization by the bank, the aim of banks is to develop the rural economy by providing credit facilities to the priority sectors through credit planning.

A credit planning can be defined as the allocation of the overall volume of bank-resources available in the country among the different sectors of the economy considering their needs, absorptive capacities and their relative importance in context of the economy's overall development. A credit plan is, therefore, an action plan, consisting of bankable schemes in the agriculture, industries and services sectors of the districts.

So, one of the major objective of the banks nationalization was to bring about a significant structural transformation in the composition of credit by a conscious diversion of bank advances on an increasing scale to the weaker section of the community.

Role of Rural Savings in Credit Planning for Developmental Programmes in Faizabad Division

Agriculture is the main occupation in the division. Nearly 90 per cent of the work force in the division is engaged in agriculture and allied activities, so, agriculture has been given the prime importance in the development of the division.

Accordingly, loans are provided for agricultural development and also for allied activities i.e. tubewells, crop loans, land development and other activities related to the agriculture. For this purpose bank financed credit to the weaker sections.

The progress made by lead banks and its subsidiaries in financing agriculture and allied activities in Faizabad division during the period of 1982 to 1990-91 has shown an overall development in agriculture sector of Faizabad division, as we can see that Rs. 30.9 crores (i.e. 69.8 per cent) of the total outlay of Rs. 44.3 crores in 1982 was allocated to agriculture and allied activities. However, in the year 1991 the total credit increased to Rs. 190.6 crores and credit provided to agriculture and allied activities went up to Rs. 138.1 crores (i.e. 72.4 per cent) as against Rs. 30.9 crores in 1982, i.e. an increase of more than 4 times as compared to 1982.

The credit facilities provided by banks to small and cottage industries was just Rs. 7.4 crores out of the total credit outlay of Rs. 44.3 crores in 1982 which increased to

Rs. 19.6 crores at the end of 1990-91. Which itself is 10.3 per cent of the total credit outlay of Rs. 190.6 crores in 1990-91.

As far as tertiary sector is concerned the credit facilities by the banks in Faizabad division was Rs. 6.0 crores (13.5 per cent of total credit outlay of Rs. 44.3 crores) at its inception in the year 1982 which shot up to Rs. 32.9 crores (17.3 per cent of total credit outlay of Rs.190.6 crores) in the year 1990-91.

While analysing the present study it is found that the average deposit of commercial banks and its subsidiaries in Faizabad division per bank was about Rs. 0.5 crores at the end of December 1982 which increased to Rs. 1.25 crores per bank at the end of March 1991 and total deposits collected by national savings schemes increased from Rs. 14.7 crores in 1983-84 to Rs. 83.59 crores in 1990-91, an overall increase of around 6-times during 1983-84 to 1990-91.

Thus, from the above findings it can be concluded that in respect of deposit mobilization and credit facilities to the three types of institutions should mobilize as much

deposit as possible, within their own sphere of lending and there should not be any restriction on the commercial banks in respect of their deposit mobilization activities and they should be free to collect deposit from all sections of the community. This is because, the commercial banks are highly suitable for deposit mobilization and providing credit facilities to the rural sectors. However, care should be taken to ensure that the cooperatives and regional rural banks are not put into difficulties by the commercial banks in competing with them in respect of deposit mobilization.

SUGGESTIONS

In order to accelerate the pace of deposit mobilization commercial banks, cooperative banks and regional rural banks should take various steps like :

- 1) modernization and restructuring of the old branches with efficient customer services.
- ii) organize deposit mobilization campaign, constant effort to secure the deposits from the local bodies, educational institutions and among rural peoples.

- iii) Attractive rate of interest should be given on different types of deposits to mobilize rural savings.
- iv) Since Reserve Bank of India has permitted to the cooperative banks to open branches even without getting licences from it and to pay $\frac{1}{2}$ per cent interest more than what commercial banks are paying on their deposits, cooperative banks should open more branches in the rural areas.
- v) Emphasis should be given, while opening the new branches, to rich agricultural areas and local markets etc.
- vi) And effort should be made to involve the employees for mobilization of deposits and those who crossed the target set by banks from time to time may be given some kind of incentive.

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